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**COMMITTEE ON BANKING AND CURRENCY.**

**HOUSE OF REPRESENTATIVES.**

**SIXTY-SIXTH CONGRESS.**

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**PORTER H. DALE, Vermont.**

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**W. F. STEVENSON, South Carolina.**

## AMENDMENT TO FEDERAL RESERVE ACT.

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COMMITTEE ON BANKING AND CURRENCY,  
HOUSE OF REPRESENTATIVES,  
*Monday, September 22, 1919.*

The committee met at 10.50 o'clock a. m., Hon. Edmund Platt (chairman) presiding.

The CHAIRMAN. Mr. Strauss, the expert on international exchange of the Federal Reserve Board, is before us this morning. He has very recently been abroad and is familiar with conditions over there from personal knowledge. We have also Senator Edge, of New Jersey. Senator, do you desire to make an opening statement?

Senator EDGE. Mr. Chairman, I have been informed pretty generally, I think, of the action of your committee when they met and considered the bill last week. As I understand it, there were several amendments suggested and a subcommittee appointed. Perhaps it is not necessary for me to take up your time at all until you actually arrive at a discussion of the amendments, and if you have any further desire to hear my opinion I shall be glad to have the opportunity of expressing it. I think the general object of the bill is thoroughly understood.

The CHAIRMAN. Then we will hear Mr. Strauss, along the line of the purposes of the bill and what is expected to be accomplished in the way of assisting foreign trade and foreign exchange.

### STATEMENT OF MR. ALBERT STRAUSS, VICE GOVERNOR, FEDERAL RESERVE BOARD.

Mr. STRAUSS. I deprecate the term "expert" which the chairman used, because the only confusing point about foreign exchange is the manner in which foreign currencies are quoted. It seems to have been devised for the purpose of confusing people. For example, in French exchange, they quote so many francs to the dollar; in English exchange, so many cents to a pound sterling. The whole system seems to have grown up so as to confuse people. It is only a question of the application of common sense to conditions with which you are thoroughly familiar and with which my associates on the board are thoroughly familiar. The weakness of foreign exchange arises from the fact that foreign countries are not in a position to make payment in dollars. So far as I can make out, the British and French are very willing at the moment to see their exchanges as they are; that is, at a discount. It affords those countries a natural protection against the desire of their nationals to make purchases in this country. Of course the extent to which the Government or the nationals buying in this country

secure credit, the exchange rate does not affect them for the moment, because by securing credit they are deferring payment for a certain period of time, according to the contract.

The CHAIRMAN. Payment is to be made at the rate of exchange at the time of maturity?

Mr. STRAUSS. Yes, sir; the contract provides for the payment in dollars at maturity. For example, if they contract for \$100,000 worth of steel from the Bethlehem Steel Co. or the United States Steel Corporation, the exchange rate does not affect the contract price, which is in dollars, but it affects the amount of their own currency which they must use to secure the dollars and in this way it does act as a very important deterrent on their nationals and thus permits the Government to remove artificial restraints put upon their trade.

Mr. KING. Could you give a concrete illustration of your last statement?

Mr. STRAUSS. If a man buys commodities here and is compelled to pay for them now in francs, he must pay 9 francs to every dollar, whereas normally the rate would be 5.25 francs to the dollar.

The CHAIRMAN. Exporters are not doing that?

Mr. STRAUSS. I do not think so. I think our exporters will stipulate for payment in dollars. At the present moment as to most of the commodities there seems to be rather a question of the ability to find the goods; that is, the finished goods.

Senator EDGE. Mr. Chairman, in view of Mr. Strauss's statement, it occurs to be that perhaps at the hearing the other day the fundamental object of the bill was not explained. I assumed, when you asked me if I had any statement to make, that you had already discussed the necessity for the bill, and rather arrived at the conclusion that the problem had simply narrowed down to the question of amendments. If there is any question in the mind of any member of the committee as to the fundamental necessity for a bill of this kind, I should be very glad to take 10 minutes of the committee's time in explanation of the reasons for the introduction of this bill.

Mr. STRAUSS. I do not differ from you at all.

Senator EDGE. I know, but, as touching the question of exchange, one of the prime objects of the bill is to help remedy that situation, with one or two other objects related thereto. I should like to bring those objects clearly before the minds of the committee members.

Mr. STRAUSS. I was purposing to lead up to the question of the necessity for legislation. There are a great many panicky ideas in the people's minds about exchange, which I do not think are warranted.

Senator EDGE. If you will pardon me for a few minutes, I would like to make a brief explanation of the bill.

The CHAIRMAN. Proceed, Senator.

**STATEMENT OF HON. WALTER E. EDGE, UNITED STATES SENATOR  
FROM THE STATE OF NEW JERSEY.**

Senator EDGE. Mr. Chairman and gentlemen, I was under a wrong impression as to the object of the committee's meeting at this time. I thought it was mostly for the consideration of amendments. The

bill is designed to offer some relief in several directions. First, the question of exchange, which Mr. Strauss has touched upon. At the present time the American exporter selling goods to France, Great Britain, or Italy, or any other country abroad, is compelled to meet a condition where, unless they simply can not get the goods in any other place, they are not going to purchase them. As Mr. Strauss has said, it costs 9 francs for a French purchaser to buy a dollar's worth of American goods. Our prices are based on the selling price of the American dollar and are naturally quite high. There are only three methods to correct that situation so that we can do business abroad. First, by importing their gold, but they have none, approximately speaking. Second, by receiving imports of their goods. They are greatly increasing imports here. Third, by buying their securities. We must adopt one, or perhaps to some extent all, of those plans if we are going to arrange the situation so that the American business man can do business abroad.

I think we all agree, no matter what our view of the various sides of the economic question may be, that increased production is absolutely essential if we are going to meet the problem of the high cost of living and the many other problems related thereto. You can not increase production if you narrow the market, and therefore we must encourage on this side the production of goods by enlarging as far as possible the market. We have built a wonderful merchant marine and we can not use it profitably unless we are exporting goods. We can not export goods unless we can be paid for them. Even to-day, at the present rate of exchange, while we are exporting some goods, according to the last monthly report of the Department of Commerce, imports are going up and exports are going down, which is a natural result, and I assume it will become greater and greater, of the prohibitive rate of exchange. Exchange is regulated by trade balances. To-day, because of our loans of approximately \$10,000,000,000 abroad, the credit balance on our side is greater than it has ever been in history. I might give you an illustration that will bring it down to our domestic conditions by using a national bank. A national bank or trust company is organized in a community by local business men in order to finance their business. They hypothecate their securities; they sell goods to men who can not pay cash; they take promissory notes and various other securities, and it is the business of the bank to advance the money, and trade goes on under those conditions.

Now, the same condition exists abroad, excepting we have not the banking facilities to handle the exportation, or at least to handle the financial part of it. The fact that America is the producing center, and the fact that foreign countries want our supplies, our manufactured commodities, our cotton and various other commodities, are a natural development in the banking system brought on by the greater opportunities of the World War. Here is a simple illustration: A cotton man, or a number of cotton men, have an order from Liverpool for a million dollars' worth of cotton. If they had an order from France to-day for a million dollars' worth of cotton it would cost the French purchaser \$1,800,000 to pay for it. So that they are only going to buy, until we equalize conditions, what they actually must have. I am getting a little ahead of the

illustration. The cotton men can not give the one, two, or three years' credit that they are asked to give by the purchasers abroad, because, as individual business men, as growers, as producers, they can not finance it. They can not go to the local bank as they would in a local transaction. They can not go to the New York house, as far as that is concerned. Our large business houses have tried to extend their business abroad, and have succeeded to some extent. These institutions are organized by the cotton manufacturer in the South, the manufacturer of machinery in New England, by the commodity growers in the West, simply because they want an institution to assist them in order that they can be paid for the goods they sell abroad, in the same manner as when they organized the local national banks, only this is on a larger scale. They organize the bank. The man abroad says he can give you merchandise, government bonds, or whatever security he may have, and the cotton men of the South go to the bank organized under the control and supervision of the Federal Reserve Board, just as the national banks are, and say: "We have certain securities offered us by purchasers of a million dollars' worth of cotton in Liverpool. Of course, we can not handle it; we want you to handle it." The bank is authorized under this act to handle the transaction, to issue bonds or debentures to the Americans, or any other security to secure their payment. It is simply a natural evolution of the banking business to meet a larger growing international situation.

I think, Mr. Strauss, that is a general explanation of the objects of the bill.

Mr. STRAUSS. You do draw the distinction between investment banking and deposit banking?

Senator EDGE. Oh, yes.

Mr. STRAUSS. Because I think the committee may become confused in the discussion and it is very important from the viewpoint of the Federal Reserve Board to preserve that distinction.

Senator EDGE. I understand your point. The thought in the Senate, which was finally dissipated, seemed to pervade the atmosphere to some extent that large investment bankers like the Morgans and various others in New York—I can not give their names offhand for the moment—were particularly interested in forming or being part of the banks provided for in this bill. In a way, it is quite the contrary. They are doing a business abroad and have no governmental supervision, such as this bill provides. They have no power to issue bonds or other securities, of course; they are simply conducting their own business. You have just passed a bill which provides that our banks can invest 5 per cent of their combined capital and surplus in just such banks as these, which are merely a connecting link between the member banks of the Federal reserve system and the foreign banks to be organized. The stock must be subscribed by business men just the same as local bank stock is subscribed by local business men. Is that the distinction you have in mind, Mr. Strauss?

Mr. STRAUSS. You do not mean banking facilities in the ordinary sense of deposit facilities, because it would be improper to load up a bank with demand deposits.

Senator EDGE. Not only improper but they could not handle them.

Mr. PHELAN. Does it not all come down to this, Mr. Strauss, that the money that should be invested in this kind of business is the money of people who want a long-time investment?

Mr. STRAUSS. Undoubtedly.

Mr. PHELAN. Rather than the money of people who put it in bank subject to demand?

Mr. STRAUSS. Yes, sir. It may interest you, Senator, to know that when I was home Saturday I met a man in the machinery business who told me that four large concerns in his line of business are planning to join in forming an institution—I did not gather whether the capital was to be \$5,000,000 altogether or whether each one of them is to put in \$5,000,000; this company was also planning to issue debenture to increase their resources all of which are to be used in the export business.

Senator EDGE. The cotton men of the South can not possibly handle their cotton unless they have some method of this kind or some other method, they tell me. I do not know. I have letters from them containing various suggestions in regard to this bill.

Mr. PHELAN. Senator, for the sake of the record, will you state why we should provide for national incorporation?

The CHAIRMAN. This is a bill for national incorporation.

Senator EDGE. I will be glad to do that. I am trying to impress upon you the reasons for this bill and the conditions that make it necessary.

Mr. MCFADDEN. Gov. Harding said here the other day it was the thought of the War Finance Corporation to subscribe 25 per cent, or a large amount of the stock of these concerns; that the authority was given them in the war-finance legislation, these bills which Congress voted, they could legally subscribe the stock in these companies, and that would be for the purpose—

Senator EDGE (interposing). If they could subscribe to them, if they already have the power. That is beyond us. Personally, I would somewhat question the War Finance Corporation using their funds to subscribe to anything. I should like to get over the war fabric we built up as quickly as we can, and let business help itself, and that is what we are doing under this bill.

Mr. PHELAN. May I ask, is it beyond their power? If it is not, a provision put in here to prohibit them, if we desire to do it, and whether or not you think it would be advisable?

Senator EDGE. I would not like to pass on that so quickly. As a matter of general policy, I state I do not believe in the Government—the Government has loaned its credit, and it has not been entirely from an underwriter's standpoint, I think all will admit, when we speak of this nine or ten billion; and we all subscribed to that policy. But back of all that has been the thought, I think we are all ready to agree, that we want to be paid for our own goods and the goods we were manufacturing over here, guns, ammunition, and everything else, and sending abroad, and that is about the way we have got to pay for it. And we would not have got paid for it otherwise; at least, the credits would have been very extensive.

We are coming to another condition. Things are not just the way we would like to have them industrially speaking, and we must keep

men employed and we must increase production, and I have just gone over the fact, of course, that we must extend markets and encourage markets and use the merchant marine.

Now, then, if we can not be paid abroad, if something like this and other relief is brought about through legislation, then the Government will again be compelled to extend its credit before we get through with this, as much as I oppose it and as much as probably the majority oppose it; but the time will come, I fear, speaking simply from the financial standpoint—I do not know whether Mr. Strauss agrees with me; I have not discussed it with him—the time will come when goods will be piled up, and if we resume somewhat nearly normal production, then, again, because we can not consume—it is utterly ridiculous to suggest the country consuming its own production—but, generally speaking, we have got to do business with the world if we are going to prosper, and the time will come again when the Government will have to do something. That is the reason I feel that to pass a bill like this will encourage the business men to help themselves, and it all goes to relieve the problem of the Government advancing credit. Now, whether we should put that prohibition in the act or not I do not know. I would like to give it a little more thought. It is rather a question.

Mr. KING. The point I am ignorant upon is the authority to incorporate a Federal incorporation. We have had quite a good many lately, but generally they have been incorporated simply as incorporations in the District of Columbia.

Senator EDGE. Yes; I understand that.

Mr. KING. What authority is there in the constitutional law?

Senator EDGE. I should say—I am not a lawyer, understand; I am simply talking from the business standpoint—

Mr. KING. Are you a banker?

Senator EDGE. No; not a banker or a lawyer, but I have been in commercial business all my life.

Mr. KING. You are a Senator, I see.

Senator EDGE. So that is all I could talk about. I would say, under the same right that they incorporate a national bank system; they are simply extending it. They were not prohibited from doing that, extending the national banking system, and giving a branch to those banks; rather, an additional authority; that would be so practical.

Mr. KING. Under the national banking law?

Senator EDGE. It is simply under the Federal reserve act. This is entirely what it is.

Mr. WINGO. In other words, these banks, the Government, and that is your constitutional authority; that is all you have got—you provide in here, "shall act as fiscal agents of the Government." That is the only constitutional action you want?

Senator EDGE. Yes; that is provided.

Mr. WINGO. That is the only basis?

Senator EDGE. Yes.

Mr. KING. What is your idea of making these perpetual charters—no limitation on them?

Senator EDGE. They were 20 years, was it not?

Mr. HARRISON. I think a 20-year limitation.



Senator EDGE. My impression is 20 years; that has not been taken out by any amendment that I recall.

Mr. McFADDEN. As a matter of fact, you give them this right to act as fiscal agencies in order to make this constitutional?

Senator EDGE. Yes; that is entirely a legal question. I presume Mr. Harrison can answer that better than I can. What was your object in making them at times the fiscal agent of the Government—to bring it within the purview of the Constitution?

Mr. HARRISON. Absolutely.

Mr. KING. Do you wish to give us your view as to whether or not this will cut the high cost of living?

Senator EDGE. I am not much of a theorist, Congressman. I think everything will contribute to help the high cost of living which increases production.

Mr. KING. The more business is facilitated, naturally the price goes down?

Senator EDGE. Yes. Another point: I think you will all agree, bringing up that point—we are facing all kinds of trouble here, and I am going to get into that. But national contentment, as I look upon it, is based on national prosperity. Now, if we can help production, that redounds to every class of citizenship—the employee and everybody else. We prepared to help production when we built this merchant marine. I have spoken of that frequently. What in the world are we going to do with this merchant marine when we hear men say we must curtail exports. There must be some individual cases at times where we should curtail a food export; that is merely a matter of individual consideration; but as a mere proposition, that we should curtail exports, and then bring back a normal condition through this country between capital and labor, and radiating everywhere, that sounds absolutely ridiculous. When we built the merchant marine we had not that view. The merchant marine may as well be scrapped if we are not going to fill the holds with American goods.

Mr. KING. Referring to American vessels?

Senator EDGE. We are still building. This Congress appropriated I do not know how much.

Mr. KING. Do you know how many of those vessels are absolutely unseaworthy?

Senator EDGE. I do not know.

Mr. McFADDEN. Your views are in conflict with those expressed by Gov. Harding before the committee. He rather discouraged the further export to these countries of everything but necessities, and would stop trading with them.

Senator EDGE. Then I disagree with Governor Harding in that direction.

Mr. STRAUSS. Was not the governor outlining what he thought should be?

Mr. McFADDEN. Certainly there would not be any necessity to encourage the curtailment of exports, because they will curtail themselves.

Mr. WINGO. Is not this the proposition? The experience now is that the export of luxuries is absorbing all the free credit of Europe, and is it not very wise for us to limit it as much as we possibly can? The exports are purely luxuries, and they disturb and destroy the

available credits for the export of necessities. Is it not a question of relative values? That is the position of Governor Harding, that we ought to safeguard, first, the credits that are essential for maintaining essential industries.

Senator EDGE. I think so, too.

Mr. WINGO. And the exporting of essential products, essential for the upbuilding of Europe. For instance, raw materials are a great deal more valuable:

Mr. STRAUSS. That will tend to work itself out.

Senator EDGE. I am absolutely friendly to anything that would curtail anything that you might term luxuries, simply because we went to get raw material and machinery, and so farth, abroad and get their goods and much of the material they will be able to manufacture that we want over on this side. There is no question about that.

But this bill, I think, Congressman goes in a way, as Mr. Strauss said, that it will regulate itself. I do not think that you are going to find impoverished Europe as poor as all the reports coming to us indicate they are. They are going to deal in a large extent in luxuries until they are placed in a position to rehabilitate themselves along lines of solid development.

The CHAIRMAN. Some time ago a young man came up to see me who said he had been to Bulgaria, I think, and sold a million dollars worth of beds. He wanted the United States Government to send the money over to Bulgaria to pay for those beds.

Senator EDGE. That is exactly what you are going to get from the manufacturers of this country very soon. They are going to say, if they do not have some other means through which they can extend credits—and they can not do it individually—they are going to say you have got to help them. They will say we have got to cut off our help if we can not sell these goods.

The CHAIRMAN. I do not know whether he meant spring beds, or fancy mattresses, or what; but should we try to help some smart American going over there selling talking machines and some foolish things of that sort?

Senator EDGE. We did help to the extent of \$5,000,000.

The CHAIRMAN. We ought not to help them at all.

Senator EDGE. I agree with you. We have got to furnish our business men some other method, or the Government will be pushed and pushed to extend credit again. I have letters from people who have read of this bill in the papers. I will pick out some samples that will seem to cover the point of the small manufacturers. Let me get this in your minds. This is not an act designed at all to help large corporations; they do not need it. The Standard Oil Co., the International Harvester Co., a concern of that kind, have had their export departments for years; they have had their representatives in every country selling their goods for years, and their resources, while perhaps not inexhaustible, are very great, and now they are in a position to finance their sales, and it ought not to be a great hardship for them; but it is simply the small man, who can not do anything except to go to his bank in the ordinary banking way.

I picked out these letters. I remember one that struck me as a sample of practically everything.

The CHAIRMAN. You may put a number of the letters in.

Senator EDGE. This was a letter from a small manufacturer of agricultural machinery.

Mr. KING. Would not the Senator put a few of those in the record?

Mr. WINGO. Is it necessary to put them in? Does not everybody think Uncle Sam is sort of Santa Claus now?

Mr. KING. This is not a Santa Claus proposition. Nearly every one wants the Federal Government to finance their business. As I understand the Senator's contention that is one of the letters. We are all getting them. I know one man who wants the Federal Government to underwrite the employment of men—

Senator EDGE. They want us to do it absolutely, and we want to furnish them a way to go to the bank in the ordinary business way and do it themselves. Here are 1,100 members of what is known as the Export Manufacturers' Association, representing every State in the Union, without a single exception. They are simply the ordinary producers of commodities that would have a sale abroad as well as here, if somebody knew about it, and are more or less enterprising. The result is they have orders and would like to sell their goods.

Mr. KING. Did you ever consult with the National Foreign Trade Council of New York City in reference to this bill?

Senator EDGE. I do not recall them.

The CHAIRMAN. I think Mr. Eckman put some letters in the record supposed to cover the demand.

Senator EDGE. Here is a letter from the Secretary of the Treasury, and from the head of the War Finance Corporation and from other Government officials.

Mr. PHELAN. Do you think the big corporations of this country will not avail themselves of this?

Senator EDGE. I say I think it is not primarily for them, but even the large corporations have their problems on account of credits, the same as the small ones, but they are in a very much more independent position.

Mr. KING. Is it not a fact that Mr. Davidson, of the Morgan house, indorses the bill?

Senator EDGE. That has not the slightest connection with this. We all read in the newspapers two or three months ago, when the question was first agitated, Mr. Davidson visited several cities and had the bankers meet and had an idea of organizing a large corporation, into the billions of dollars, to carry out this same general purpose. However, as I recall the comment at that time, his proposition also included the Government's cooperation in some way, did it not, Mr. Strauss? That the Government underwrite or secure by bonds or something of that kind?

Mr. STRAUSS. Or encourage it? It looked to governmental encouragement rather than operation.

Senator EDGE. I do not think he defined just what that encouragement should be, but I think the general impression got around that it meant that the Government was going to loan its credit.

Mr. WINGO. I do not know that it is the matter referred to, but one scheme discussed with the bankers was that the foreign Governments would guarantee the credits for the importers who wanted to import from the United States; and then the United States Govern-

ment in turn would guarantee the credits of the foreign Governments.

Senator EDGE. That would be decidedly a Government participation.

Mr. WINGO. A horse of the same color?

Senator EDGE. Yes. This, as you plainly see, does not contemplate anything of that sort. It simply furnishes a method by which business men can organize and put in their capital by buying shares, in order that a business institution, in an ordinary banking way, may turn their securities over to the bank and get money on them.

Mr. PHELAN. Substantially does this bill do anything more than this: Under the existing law, when the bill recently passed has been signed—

Senator EDGE. And which has been signed.

The CHAIRMAN. I understand it has been.

Senator EDGE. Yes, passed; permitting them to invest in these corporations.

Mr. PHELAN. When it is signed will this bill do any more than this: Permit the national incorporation of institutions to do the same kind of business they are now authorized to do by States, practically the same?

Senator EDGE. No; it does not permit them to do anything, except to permit the investor and the American business man the double assurance that the Government is supervising the transactions of the concern, which, of course, now only is as they voluntarily permit, is not the case with State institutions.

Mr. PHELAN. I meant this: Can not substantially everything be done now that can be done when this bill becomes a law?

Senator EDGE. In these State institutions?

Mr. PHELAN. Except through a national corporation?

Senator EDGE. Yes, perhaps it can; but the mere fact there is such a demand on the part of the business men for a Federal incorporation demonstrate that they want one, and more, what might be termed, with due regard to State institutions, more established institutions, rather than individual corporations organized perhaps under a liberal charter in some State. Certainly, in the interest of the public, it would be better to have this go under Federal supervision.

I understand, and Mr. Strauss probably understands better than I, that these institutions will probably submit to the Federal Reserve Board.

Mr. STRAUSS. The corporations make agreements with the Federal Reserve Board by which they submit to certain conditions which they will observe in the conduct of their business and agree not to extend—

Mr. PHELAN. They require that in the law.

Senator EDGE. They are State institutions. Would you have any control over them?

Mr. STRAUSS. That is required in the law permitting national banks to buy their shares.

Mr. PHELAN. The requirement is, as I recollect, that national banks can not invest in State corporations of this kind unless the State corporations submit.

Senator EDGE. That is true, but the national corporation does not control the corporation itself.

Mr. McFADDEN. I notice these institutions are authorized to receive deposits. Will you not express your views on that, why that provision is included?

Senator EDGE. I would rather refer that to Mr. Harrison. In a few words, they were empowered to receive deposits relating directly to the transaction in which they were engaged; in other words, if they were financing purchases abroad, there might be, and would be necessarily, certain deposits from abroad, or domestic, that would be required in connection with that transaction, so they were given that power. However, I suggested to your chairman that it should be qualified and defined, so it could not be looked upon as in any way in competition with the national bankers' business of this country.

Mr. McFADDEN. I was not speaking particularly as to competition, but I question the right of an institution of this kind to receive bank deposits.

Senator EDGE. They have to receive money; they have to actually handle money; you can call it what you will. Mr. Harrison, I think, has a very good qualifying amendment that he will suggest to you on that.

Mr. WINGO. Before the Senator leaves, I should like to ask a few questions.

The principal objection I have heard to the bill is this, namely, the fear that there might be a monopoly of the export business by this financing, that these corporations, controlling the credits, would have the producers of America absolutely at their mercy, and that they could hold up the German, the French, and the Scandinavian purchases, make them pay an exorbitant price, not only for the article, but for the raw material, and still, at the same time, hold up the American producer, having control of the only market he has, to make him take a lower price. I think perhaps the reason you put in the lines 17 to 22 on page 6 was to meet that fear. You put in the following:

No corporation organized under this act shall engage in commerce and trade, or deal in commodities or foodstuff, or as a condition of extending credit dictate or attempt to control the buyer or seller in the disposition of commodities, or interfere with the freedom of competition in the sale of commodities.

That is a very proper provision. You have got a penalty?

Senator EDGE. The general penalty on page 9.

Mr. WINGO. No; you say if they fail to comply. On page 8 you say if the corporation fails to comply with any provision. You do not say violate.

Senator EDGE. "Fail to comply" is a legal clause, is it not?

Mr. WINGO. No; "comply" means to do something that is affirmatively commanded. "Violate" means to do something—

Senator EDGE (interposing). Of course, after putting in this amendment, we felt we had met any possibility such as you suggest. Is not the additional answer to that the two lines that follow?

Mr. WINGO. That is the point I wanted to get at. Would you object to a penal clause being put in there for a violation of this?

Senator EDGE. Not in the slightest degree, but here is the point I am trying to bring to you; that all through the act, every act of

a corporation incorporated under this act is subject to the approval and control and jurisdiction of the Federal Reserve Board.

Now, most of the corporations in this country are organized to issue stock, without very much, if any supervision. Here we take an arm of the Government that has absolutely gone through, from a banking standpoint, one of the crises, which has never been paralleled, and done it in a wonderful manner, and I do not want the act so limited that it is not flexible enough to encourage incorporations under it, and then to be of some practical use afterwards, because we have always got the come-back. If they try to do anything that is suggestive as a possibility, the Federal Reserve Board is there to stop it.

Mr. WINGO. Do you want to offer any attractions to any gentlemen for the purpose of monopolizing the foreign trade? If that is their purpose, do you think it is right to offer inducements to them?

Senator EDGE. There are two or three answers to that. In the first place, there is absolutely no limit to the number of these corporations. If anybody starts to become a monopoly, certainly other dealers will proceed to organize; it is not difficult to organize.

Mr. WINGO. That is the old objection to the Federal Reserve Act; it was said that monopoly in the banking business was a physical impossibility, yet there were some gentlemen who suspicioned there was a monopoly, and they used that as the basis for the enactment of the Federal Reserve act. The legitimate men, of course, the great bulk of the men urging this kind of legislation are doing it because they see the prosperity of the country requires that something be done to prevent chaos in our export trade and of the credits that are expended on them. Now, if those men want to do that, will they not themselves be protected if you say to the men who want to come in purely for the selfish purpose of monopolizing trade, and not legitimate financing, and making a profit out of legitimate credits, do you not think you ought to put an inhibition against that man?

Senator EDGE. I would have no objection unless the penalty could be so construed so as to hamper and harm a real legitimate effort to do business. Sometimes a penalty, if it is not very clearly defined, can be used as a club. Were you going too near the ragged edge of something of that kind, I think the Federal Reserve Board will be of sufficient protection to the public.

Mr. PHELAN. Who was the author of the double-liability provision?

Senator EDGE. Senator Gronna. Of course, double liability went in on the Senate side with this argument, that the type of deposits were not limited; that they might go into a regular banking business.

The whole idea of double liability, as I understand it, and which of course applies to national banks, is the fact that a bank is handling the peoples' deposits, all classes of deposits. They are loaning it under their own direction entirely, and of course they have two or three examinations a year, but the people are putting up their money in the bank and allowing the bank, in a way, to speculate with it for the benefit of the shareholders, have the right to be sufficiently safeguarded by the doubling of the amount. That is an accepted policy, and I agree with it. Of course, in these institutions the

deposit is purely incidental and should be very carefully defined, I think. They are issuing bonds and debentures on securities they receive. Nobody has to buy them; it is simply an offering to the public. We do not get any double liability. It is purely up to the public to buy the bonds if they want to.

In this particular case the Federal Reserve Board looks over it, while in the case of 99 per cent of the corporations formed in the country—land companies and many of those institutions—they issue bonds and stock and preferred stock, and nobody is liable except for the amount of the money in the shares, so I really feel the double liability is unfair.

Mr. KING. Would the Senator answer one more question? I see power is given to these corporations to borrow and to lend the money on real and personal security. Anyone of these bankers would have the right to buy property and build a building in any country in the world, I presume.

Senator EDGE. Oh, yes.

Mr. KING. And it would lend money upon mortgages taken on those lands. Now, suppose, for instance, they established a bank in the Kingdom of Hedjas, that has been mentioned frequently in the arguments over there, or elsewhere, and there should be a rebellion or some foreign foe should attack the bank and all the securities were seized, what would be necessary for us to do?

Senator EDGE. What would be necessary for the bank, do you mean?

Mr. KING. What protection would the bank have?

Senator EDGE. Well, if they made a bad investment somewhere—

Mr. KING (interposing). No; if their banking institution was attacked in the Kingdom of Hejaz or elsewhere, where it might be established, by rioters?

Senator EDGE. I am afraid we would lose out if anything of that kind happened.

Mr. KING. Would we not have to send troops from the United States to defend them and their property?

Senator EDGE. You are getting me into a league of nations argument now. I want to answer your question.

Mr. WINGO. They would not have any more rights than any other American citizen has, any individual who had his property over there.

Mr. KING. Here is a corporation, a creature of the Government—

Mr. WINGO. Does the gentleman from Illinois mean to say we might send troops over there?

Mr. KING. Would it not require troops—

Senator EDGE. I should like to answer the question. My answer, in a general way, is it would be termed and treated as any other bad investment, and the shareholders would lose money.

Mr. KING. The purchasers of these securities would have to run the risk.

Senator EDGE. Absolutely, we run the risk. We buy things on the stock exchanges every day and have to run lots of risks.

Mr. STRONG. Do you think the Federal Reserve Board has ample authority to restrict or, if necessary, prohibit, these banks in engag-

ing in business or extending credits to any country where the conditions might be undesirable?

Senator EDGE. The bill is so clearly definite in several particulars.

Mr. STRONG. Do you think the Federal Reserve Board would have power to prohibit?

Senator EDGE. "Excepting financing of foreign purchase or transaction." I do not think there would be any right in the world, and I do not think the Federal Reserve Board would in any way permit it.

Mr. STRAUSS. I doubt very much if the Federal Reserve Board would ever say to any bankers that they are prohibited from doing business in any particular country. We might indicate to them that the risk they are undertaking is an undesirable one. The commercial risk is for them to settle.

Mr. STRONG. They do in the case of a national bank.

Mr. STRAUSS. You would not say to a national bank, "You must not lend any money to A or B."

Senator EDGE. These banks are precluded from commercial transactions by the amendment Mr. Wingo spoke of a few moments ago.

Mr. KING. They can loan money and take mortgages on land in the Kingdom of Hedjas.

Mr. STRONG. Some country might offer a higher rate of exchange, or offer certain inducements for these loans, and get the loans. The question in my mind is whether this is not liable to get us into some foreign trouble.

Senator EDGE. You must not get away from the fundamental intention of the bill. In the first place, under the terms of the bills the banks must have exclusively American directors, and every act of the bank that would be considered at all must be in the hands of American citizens, and any question not clearly defined in the bank must go to the American control of the banking business of this country, and we all here must do something to solve this problem if we are going to do business; therefore, we must leave something to the future. I can not think that we can draw an act that is going to meet every contingency.

FEDERAL RESERVE BOARD,  
Washington, July 21, 1919.

Hon. GEO. P. McLEAN,  
*Chairman Banking and Currency Committee,  
United States Senate, Washington, D. C.*

MY DEAR SENATOR: I have received your letter of July 17, 1919, inclosing a copy of Senate bill 2472, introduced by Senator Edge on July 15. You ask for an analysis of this act and for such recommendations as the Federal Reserve Board may care to make in the circumstances.

This bill is drawn for the purpose of amending section 25 of the Federal reserve act by providing for the incorporation under the Federal law of institutions to engage principally in international or foreign banking or other international or foreign financial operations, including banking or other financial operations in a dependency or insular possession of the United States.

Section 25 of the Federal reserve act, as amended by the act of September 7, 1916, authorizes any national banking association possessing a capital and surplus of \$1,000,000 or more to file an application with the Federal Reserve Board for its permission, first, to establish branches in foreign countries, and, second, to invest an amount not exceeding 10 per cent of its capital and surplus in the stock of one or more banks or corporations chartered "under the laws of the United States or any State thereof" and principally engaged in international or foreign banking. In order to promote the foreign commerce of the United States certain national banks have organized corporations of the kinds



described in this section under various State laws for the purpose of providing this means of financing American exporters and importers. The persons interested in these corporations, however, have made numerous appeals to the Federal Reserve Board and to Members of Congress for the enactment of a law authorizing the incorporation of institutions of this character under Federal charter, it being argued, very reasonably and logically, that section 25 of the Federal reserve act contemplated that Congress would permit the Federal incorporation of institutions of this kind when it provided that national banks might invest in the capital stock of such corporations chartered either "under the laws of the United States or of any State thereof."

As you are probably aware, an act prepared and recommended by the Federal Reserve Board and substantially similar to the one introduced by Senator Edge was at one time passed by the Senate. For some reason of which I am not at this time certain, the bill was not passed by the House. I believe, however, that it never even received consideration by the House, and I mention this merely that you might not think it was voted down.

The Federal Reserve Board has in several of its annual reports to Congress recommended the enactment of a bill similar to the one now under consideration, and for your information I take pleasure in quoting herein an extract from the annual report of 1917, printed on pages 32 and 33 of that report, setting forth certain reasons for the favorable consideration of the bill.

"An amendment of section 25 to provide for the Federal incorporation of banking associations whose stock is owned by national banks which operate under the control of the Federal reserve banks and which are engaged solely in international and foreign banking. The present law permits any national bank to invest an amount not exceeding in the aggregate 10 per cent of its paid in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States. This language appears to indicate an intention by Congress to permit incorporation under the laws of the United States, and several national banks have become stockholders in banks which have been organized under State laws for the purpose of carrying on a foreign banking business in accordance with the terms of this section. The arguments in favor of Federal incorporations are:

"(a) The time will probably come when the conflict of the dual control exercised by the Federal Reserve Board and by the banking department of a State may be a matter of embarrassment or operate to restrict the activities of the banking corporation.

"(b) Such a banking corporation, being essentially a national enterprise, whose stock ownership by national banks was authorized by an act of Congress, would appear to be entitled to the benefits and protection of a Federal charter, which would be of great value in competing for business in foreign countries."

I should call your attention, however, to one element in this bill which differs slightly from the ones heretofore introduced; that is, that the corporations are to be chartered for the purpose of engaging principally in international or foreign banking "or other financial operations." The purpose of inserting the term "or other financial operations" is to provide for the Federal chartering of institutions of the kinds in which national banks are authorized to invest in a bill (S. 2395) which was passed by the Senate some time during the past 10 days. The bill under discussion—that is, S. 2472—would not, therefore, be complete did it not provide for the organization of corporations permitted to engage in "other financial operations" as well as those which come strictly within the term "banking."

The credit situation in Europe at the present time is such that in order to maintain a stable market for our exports it will be necessary not merely to grant short-time commercial credits of the kinds contemplated under the terms of section 25, as originally enacted, but also long-term investment credits of the kinds contemplated by S. 2395, which authorizes national banks to organize corporations to be engaged principally in such phases of international or foreign financial operations as may be necessary to facilitate our exports. To this end Senate bill 2472 provides for the organization of corporations which shall be permitted to engage both in the business of international or foreign commercial banking and in other financial operations as distinguished from commercial banking, such as shall be necessary to assist in the development and maintenance of the commerce of the United States.

The bill provides in substance, first, a method and means of organizing these corporations under Federal law, and then sets forth the powers which they may exercise. These powers include the powers of the ordinary discount and investment corporation, including the power to buy and sell drafts, checks, bills of exchange, acceptances, cable transfers, and other evidences of debt, including the obligations of the United States or any State thereof, and to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may prescribe, to borrow or loan money on real or personal security, to receive deposits, and generally to exercise such powers as are incidental to the powers conferred by the act or as may be usual in the transaction of banking or other financial operations in the country in which the corporation transacts business. This latter power is absolutely essential in order to enable these corporations successfully to compete with foreign institutions of a similar character. The corporation is also authorized, subject to the approval of the Federal Reserve Board, to establish branches and to own or control other corporations not transacting business in the United States. The act also provides that the Federal Reserve Board may grant permission to these corporations to exercise fiduciary powers in so far as they may be necessary to the conduct of the foreign or international business engaged in by the corporation. The board believes that the granting of this power is not essential and that it may only serve to arouse unnecessary opposition on the part of certain State trust companies.

It is suggested that on page 4 of the bill, after line 16, the following clause be inserted: "Under such rules and regulations as the Federal Reserve Board may prescribe," so that line 16 shall read as follows: "Each corporation so organized shall also have power, under such rules and regulations as the Federal Reserve Board may prescribe." This insert is suggested in order that there may be no doubt that all of the operations of the corporations chartered are subject to the general supervision of the Federal Reserve Board.

The board agrees fully with the purpose of the two sentences included in lines 1 to 10, on page 8, beginning "any member bank may act as agent," but it suggests, solely for the purpose of clarity, that those lines be amended so as to read as follows:

"Notwithstanding the provisions of section 19 of the Federal reserve act any member bank may act as a medium or agent for any corporation organized under the provisions of this section in applying for or receiving discounts from a Federal reserve bank under rules and regulations to be prescribed by the Federal Reserve Board. The Federal Reserve Board is authorized, under rules and regulations to be prescribed by it, to permit Federal reserve banks directly to extend their facilities in the manner and to the extent defined in such regulations to corporations organized under the provisions of this section. No such corporation, however, shall become a member of any Federal reserve bank."

It is also suggested that for the purpose of clarity page 1, line 10, be amended by inserting the word "in" between the words "or" and "banking," so that line 10 shall read as follows: "ing or other financial operations, or in banking or other financial."

With these slight changes the Federal Reserve Board earnestly indorses the proposed bill and suggests that its enactment is even more essential at this time than when its adoption was first recommended by the board. The board knows no one way in which the present European credit situation may be more effectively dealt with than by the incorporation of institutions of the kinds provided for in this bill, and anything that betters that situation assists not merely in the gigantic task of reconstruction in Europe but also in providing a market for our own exports and in developing our foreign commerce in a most effective and satisfactory way.

Very truly, yours,

W. P. G. HARDING, *Governor.*

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THE SECRETARY OF THE TREASURY,  
Washington, August 16, 1919.

MY DEAR SENATOR: Responding to your note asking an expression of my views on S. 2472 to amend the Federal Reserve act with a view to providing better facilities for financing the foreign trade of the United States, I beg to say that it is my considered judgment that the bill, with a few minor modifications, should be enacted into law. The amendments which I have in mind

are those suggested in the letter of Gov. Harding to the chairman of the Banking and Currency Committee of the Senate under date of July 21, 1919, submitting the views of the Federal Reserve Board on the bill. As chairman of the board, I fully concur with the expression of opinion made in the governor's letter. I entertain none of the misgivings of those who hesitate to support the measure; but, on the contrary, feel confident that its prompt enactment into law will afford an effective and altogether desirable means of greatly improving our foreign banking facilities and expanding the markets for our export trade.

Sincerely, yours,

CARTER GLASS.

HON. WALTER E. EDGE,  
*United States Senate.*

MR. WINGO. It is your intention that these banks should have the privilege of discount and get Federal Reserve funds?

SENATOR EDGE. That was cut out, was it not, Mr. Harrison?

MR. HARRISON. Yes.

MR. WINGO. You think that is eliminated. I do not find any inhibition of any member taking paper in these concerns, and taking it to the Federal Reserve Bank and getting securities. Gov. Harding did not think so.

SENATOR EDGE. Is there any objection to that under the Federal Reserve Board? The specific paragraph was taken out, but is there any objection?

MR. WINGO. I do not want to misrepresent Gov. Harding, and as I recall he admitted here that under the bill they could indirectly get the discount from member banks.

SENATOR EDGE. Do you see any objection in that?

MR. WINGO. I certainly do.

MR. HARRISON. It depends on the paper.

MR. WINGO. Any bill that would permit Federal Reserve notes to be issued against long-term credits.

MR. STRAUSS. Mr. Wingo, I think you must have misunderstood the Governor on that.

MR. WINGO. All right; there would be no objection, then, to putting in a clean, clear cut inhibition?

MR. STRAUSS. Unless they have some commercial paper that runs 90 days. Why should they not have the same facilities as anybody else, if they have they have the eligible paper?

MR. WINGO. There might be a clear distinction between long-term paper, given for three years, and has yet 90 days, say, before it comes due, and you are afraid it is not going to be taken care of, and you see a bad loss, yet it might not appear on its face, a foreign transaction, the credits far removed, even from the jurisdiction of foreign courts, I think you will not say that is on all fours with the domestic custom of the United States.

SENATOR EDGE. Is there anything in the law that prevents a national bank to-day taking the note of a foreign manufacturer, or indorser?

MR. WINGO. I do not know. It violates the spirit of the Federal reserve act. We were assured at the time we passed it, that it would not be done. Now, we are putting in a new class of business, and it is going to involve such a vast risk that is going to take extraordinary machinery to handle these precarious credits. We never voted for this bill, or any other bill, that will permit the Federal re-

serve notes to be issued on securities where the debtor is away over yonder in the jurisdiction of foreign courts.

Mr. STRAUSS. As a matter of fact, Mr. Wingo, this bill does not change that situation in any respect. If the kind of undesirable security you describe is created otherwise than through the agency of this corporation, it might, within three months of its maturity, conceivably be tendered to the Federal reserve bank through a member bank.

Mr. WINGO. Let me give you a concrete illustration. If some one of these foreign institutions should give its direct obligation, at 60 days, to a member bank, and all of its wealth and everything that a creditor of these institutions can look to is this foreign, long-term investment credit, so you think that a member bank ought to be permitted to rediscount that paper, that Federal reserve bank?

Mr. STRAUSS. It would not be eligible. Is not that the fact, Mr. Harrison?

Mr. HARRISON. Absolutely; the Federal reserve bank has no authority in law to take it.

Mr. WINGO. A corporation puts up its note and the same is indorsed by some one liable, with no collateral at all attached, or put up, say, collateral of domestic paper?

Mr. STRAUSS. Only if the proceeds are used for a commercial purpose. What is the language of the section, Mr. Harrison?

Mr. PHELAN. The point is, the kind of an instrument that is brought up for rediscount?

Mr. STRAUSS. And the nature of the transaction.

Mr. PHELAN. It is not a question of the security of the company, if the obligation itself comes within the limitations and conditions of the Federal reserve act, then it is rediscountable; if it does not, it is not, and unless there is something in this act to change that—

Senator EDGE (interposing). We do not want it changed.

Mr. WINGO. I want to be sure of it.

Mr. PHELAN. The proceeds must be used, in effect, for commercial purposes.

Mr. WINGO. Suppose a member bank in New York City should loan to one of these corporations all of its available, loanable funds, and then in order to get money to meet its domestic demands, it takes all of its domestic credits and goes down to the Federal reserve bank and gets a rediscount. That would insure issuance of Federal reserve notes?

Mr. STRAUSS. I think the answer to that is that in the first place national banks could not loan all their assets to one customer.

Mr. WINGO. They can loan, in some instances, 20 per cent?

Mr. STRAUSS. Yes.

Mr. WINGO. All right. Suppose that 20 per cent exceeded all their immediate available funds? I know cases frequently where they loan up to the limit to one borrower all of their immediate available funds; then they can say, "We loaned to this one," and take this other bank and say, "We loaned to them 10 per cent," and they can all the time take it to the Federal Reserve Bank and get a direct discount.

Mr. HARRISON. If on paper that is eligible.

Mr. WINGO. I do not know what would prohibit it if it had a lot of gilt-edged domestic paper, due within 30 days, say, prime

commercial paper, and if it comes up and puts that up, it is entitled to a direct discount, and that discount is brought about by the fact that it has exhausted all its available funds, on a class of securities not eligible to rediscount.

Mr. STRAUSS. But a customer of the bank does not need to go abroad to do an unwise thing, he might do that by building a factory in a badly selected place.

Mr. WINGO. Then is it not the duty of the Federal Reserve Board, then are you not wrong—I am just coming around to the proposition you stated awhile ago—is it not the duty of the Federal Reserve Board, and does it not now exercise some control over the character of business?

Mr. STRAUSS. By periodical examinations, yes; but what I meant was that each risk, as presented to the bank, is not going to be passed on by the Federal Reserve Board.

Mr. WINGO. The Federal Reserve Board, if it finds some bank engaging in a class of business that makes it absorb all of its available funds in long class securities, even though not violating the law, it will say, "We will not permit you to avail yourself of rediscount privileges under the Federal reserve law, although you have paper that is perfectly eligible." The board does that now.

Mr. STRAUSS. They would be examined and criticized and called down.

Mr. WINGO. Do they stop at criticism and keep on dishing out notes to them? You do not mean the board does that now? They do not exercise that right now.

Mr. STRAUSS. They exercise the right of admonition, but, of course, if the assets tendered to the Federal reserve bank are eligible they would get their rediscount.

Mr. WINGO. What is an admonition worth if you have got no power to back up the admonition?

Mr. STRAUSS. I think they would be very responsive to any admonition.

Mr. HARRISON. The Federal reserve banks can, of course, refuse any paper as a bad business risk.

Mr. STRAUSS. Whether it is indorsed or not.

Mr. HARRISON. Often a member bank offers a batch of paper, which the Federal reserve bank may decline because as a matter of banking risk it is not good paper.

Mr. WINGO. The Federal Reserve Board, even though they may differ from the Federal reserve banks, you say has no control over it? I do not think you will take that position.

Mr. HARRISON. No; of course, they have got indirect control.

Mr. WINGO. I say they can control the Federal reserve banks. You stop handling that paper because this member engaged in a character of business of this sort, it is going to impair their securities sooner or later.

Mr. HARRISON. I think that stops at examination.

Mr. WINGO. But when brought to your attention the Federal Reserve Board does exercise some supervisory control.

Mr. STRAUSS. Undoubtedly it does all the time. We have a division examiner who does nothing else.

Mr. ACKERMAN. It was asked on Thursday who Col. Starkman was? I have a letter this morning that Col. Starkman was assigned

as technical advisor to the Department of Commerce and Finance, by Brig. Gen. C. H. McKinstry.

The CHAIRMAN. You put in the record Friday letters similar to those referred to by the Senator this morning.

Mr. ACKERMAN. I did.

The CHAIRMAN. Covering the denial?

Mr. ACKERMAN. Yes.

Senator EDGE. I will send a few more.

Mr. ACKERMAN. We also put in the record, as requested by one of the Congressmen, letters from the National Foreign Trade Council.

The CHAIRMAN. Do not put in too many. Now, Mr. Strauss—

Mr. PHELAN. I should like to ask one or two questions about the bill, from some one?

The CHAIRMAN. Mr. Strauss is here for the purpose of answering questions.

Mr. PHELAN. On page 5, under section C:

With the consent of the Federal Reserve Board to purchase and hold stock or other certificates of ownership in any corporation organized, etc.

Permission apparently is given there to these corporations to hold stock in other similar corporations. Is that correct?

Mr. STRAUSS. Yes.

Mr. PHELAN. What is the purpose of that?

Mr. STRAUSS. In many cases it may be necessary for them to organize local corporations in other countries. Some of our banks operating in foreign countries now found it expedient to organize separate banks, one in Peru, one in Nicaragua, the parent bank in this country acting as a holding company in respect to the shares of the bank in that particular country. They want local directors; they want to make the institution, as far as possible, take on a local color. The same condition may apply in the case of corporations organized under this act. The case I have in mind was the case of a State bank that is now authorized to do a similar business. Is that not correct?

Mr. HARRISON. Yes; and the Federal reserve act itself contemplates this kind of corporation shall conduct its operations either directly or through the ownership or control of local institutions.

Mr. STRAUSS. In the case of national banks, that is quite essential to secure that permission. Whether it will prove essential in the future or not, nobody can say, but it probably will.

Mr. PHELAN. Is this contemplated, that these corporations shall hold stock in foreign corporations, organized locally, or in the United States corporations, organized to do business in foreign countries?

Mr. STRAUSS. It permits both, organized under the conditions of this section, or under the laws of any foreign countries.

Mr. PHELAN. It permits a corporation to invest in another corporation doing exactly the same business? I am trying to find out what the purpose is.

Mr. STRAUSS. I think the purpose of that provision is to permit a company that starts to do business here and which in certain foreign countries might prefer to organize under this same law as a separate corporation to do business in some particular region of the world—South Africa, for instance—rather than to permit the main bank to have relations with Siberia, or whatever the country is.

Mr. PHELAN. This particular section, under its provisions, permits a corporation to hold stock in another corporation similarly organized, doing a similar business?

Mr. STRAUSS. Yes.

Mr. PHELAN. It permits the first-named corporation to own stock in a domestic corporation designed to do business locally in some foreign country?

Mr. STRAUSS. Yes.

Mr. PHELAN. It permits the first-named corporation to hold stock in a foreign corporation, incorporated in a foreign country, to do business in that country?

Mr. STRAUSS. Yes.

Mr. PHELAN. It permits all those things?

Mr. STRAUSS. Yes.

Mr. PHELAN. Would there be any objection to prohibiting this foreign-named corporation from holding stock in the corporation incorporated under the provisions of this act, to do a similar kind of business?

Mr. STRAUSS. I do not think that it would paralyze these operations, because they could seek incorporation under the laws of a State if they found the necessity of an American incorporation for branches or subsidiaries.

Mr. PHELAN. My point was this—one corporation could be a holding company for all the corporations formed under this act. Will you state whether or not that would be advisable?

Mr. STRAUSS. No; I think that would be very inadvisable from every point of view.

Mr. PHELAN. Could not that be done under this third provision?

Mr. HARRISON. It could be done, except that it would require the approval of the board. The only reason that was put in there, Mr. Congressman, is this—that it was conceived, as Mr. Strauss said, that it might be advisable under peculiar circumstances, for a corporation organized under this act and doing business in several countries to have one individual corporation, doing business only in one foreign country, but, as Mr. Strauss says, I do not believe it is very vital. If there is any thought in the minds of the committee that it is dangerous or inadvisable, I do not think it would endanger the successful operation of the bill to eliminate it.

Mr. STRAUSS. Your point is this: It might be rounded up into one wholesale corporation?

Mr. PHELAN. Yes; and it is not an answer to me to say that the Federal Reserve Board has power to stop it, because I doubt very much whether we ought to delegate the board to stop a bad thing; I think the way to stop it is the legislative way, and not pass it up to somebody else to stop it by its action.

Mr. WINGO. Before Mr. Strauss leaves that section, I want to direct your attention to this language, at the bottom of page 5 and the top of page 6: "Except such as in the judgment of the Federal Reserve Board may be incidental to its international or foreign business." What do you mean by that? Do you mean those corporations that they buy stock in should be limited to that character of business? In other words, can they only invest in the stock of corporations, either in this country or in a foreign country, that are engaged in the incident of international, foreign business?

Mr. STRAUSS. My understanding is, under this bill a corporation organized to do business is organized to do foreign business, and the domestic business it is permitted to do—

Mr. WINGO (interposing). Why put that exception in there?

Mr. STRAUSS. That the domestic business that such a corporation is permitted to do must be incidental to its foreign business, and the same limitation is repeated here.

Mr. WINGO. That is the trouble, you just put the opposite in there. You make an exception. But the business that is excepted, that they can not do, is that which is incidental to the international, foreign business. I know you do not intend that, but how do you explain that?

Mr. STRAUSS. I turn to Mr. Harrison on that when it comes to the drafting of the act.

Mr. HARRISON. There may be too many double negatives there, but that is solely a matter of phraseology.

Mr. WINGO. A mighty good lawyer holds that under this subsection 3, that a corporation that is susceptible of being organized, a cotton corporation, could monopolize all the cotton of the South; that one of these Federal institutions, authorized by this bill, could subscribe to a majority of its capital stock and keep control of that one product, because it controls the stock of the concern that has \$5,000,000,000 capital that proposed to go out and absorb the cotton market in this country.

Mr. STRAUSS. Will you repeat that question?

Mr. WINGO. In other words, you authorize one of these institutions to purchase and hold the stock of any other corporation organized under the provisions of this section of the bill, under the laws of any foreign country, or under the laws of any State. In other words, if a corporation organized in New Orleans, under the laws of the State of Louisiana, say for \$5,000,000,000 capital, for the purpose of buying cotton, then a corporation organized in New York under this act could purchase a majority of the stock of that Louisiana corporation and control the financing of the export of cotton, while the subsidiary corporation controls the purchase of the cotton. Is that intended?

Mr. STRAUSS. They could if it did not involve more than 10 per cent of their capital and surplus. That is on the next page.

Mr. WINGO. That would be the limitation. Now, then, several of them could be organized, and they could take—say you would organize ten different corporations, and each one of them could take 10 per cent of their capital stock in this Louisiana corporation, and each one could take 10 per cent of the capital stock of each other and get around the 10 per cent limitation, and have ten corporations holding each other, and owning this corporation stock.

Mr. STRAUSS. Ten per cent is the maximum limit of the total investment.

Mr. WINGO. I know they limit themselves, but you could have ten corporations and those ten corporations organized, under this act, each one of them could go their limit of 10 per cent in the purchase of the Louisiana corporation, and that would give them control of the Louisiana corporation, and each one of them could also use up to 10 per cent in purchasing the stock of each other's corporation, so



you would have ten corporations all owning each other's stock, and owning this corporation down in Louisiana. Is that not possible?

Mr. STRAUSS. I should have to follow that through. I do not get the full intent of that. Mr. Harrison, do you?

Mr. HARRISON. That would be possible.

Mr. STRAUSS. The only limitation on that is that no one national bank can invest more than 10 per cent, or is it 15 per cent, in any one corporation.

Mr. HARRISON. It is 10 per cent for each corporation, not an aggregate of 10 per cent.

Mr. STRAUSS. Of its own capital, but there would be no limit on the activity of that primary corporation as to its investments in other corporations organized under this act or foreign acts.

Mr. PHELAN. That is, in the case cited by Mr. Wingo, they held 10 per cent, not only in ten corporations, they might in 500 if they could get the money?

Mr. STRAUSS. Yes; if they could get the money.

Mr. WINGO. They could say to the cotton producers and foreign purchasers of cotton, "You have got to do business with us—one of us 10 institutions." That goes back to that proposition that is at the bottom of page 6. Now, is that possible? There are some gentlemen who think it is possible, and they were anxious for that to be possible. Do you think it wise to permit that?

Mr. STRAUSS. No; I do not think it wise to permit it.

Mr. WINGO. We are making a law now for 20 years. The wheat growers are very much alarmed as to what is going to be the condition, as to whether or not the credit of Europe is going to be sufficient to take care of the credits necessary to pay the American wheat producer for his wheat. Would it be possible to have a large corporation organized for the purpose of buying wheat and exporting it, and then that corporation have its capital stock or controlling interest in it held by a group of corporations organized under this act, they dealing in credits and furnishing the credits for the subsidiary corporations and between the group of 11 different institutions, they practically hold not only the purchaser in Europe at their mercy, but the producers of this country at their mercy, the mills of this country at their mercy, and the wheat farmers at their mercy.

Mr. STRAUSS. I think the answer to that is Mr. Phelan's answer: If they can raise the money.

Mr. WINGO. If the profits are great enough have you ever found any inability on the part of American financiers to get the money?

Mr. STRAUSS. I am not at all sure those profits would be so extreme.

Mr. WINGO. If you have got a monopoly, and under this act you are going to reduce them from all limitations of the Federal antitrust law, and the Federal Reserve Board is just to admonish them, as you suggest—

Mr. STRAUSS (interposing). My memory goes back far enough to the time when there was an attempt to corner the copper supply of the world, and they did for a few months, then the whole thing went up in smoke, and one of the largest institutions in France closed its doors.

Mr. WINGO. And one man cornered wheat in this country, and if he had not got cold feet, within 48 hours longer they would have settled with him and he would have cleaned up millions.

Mr. STRAUSS. There is always some "if" in those transactions, but if it is possible to limit this in such a way as to avoid the undesirable features—

Mr. WINGO (interposing). That is the point; you are going to tie the domestic institutions of this country under rigid rules of the anti-trust laws in order to protect the American people. If that is true, when you go to engage in the transporting of the surplus food supplies, the surplus raw material, its copper, its cotton, its wheat, and all the other surpluses, is there not the same necessity to protect the producer as well as the consumer of foreign countries? If he is not protected he will bid a lower price even if they do not control the purchasing agencies in this country. Is there not just as much necessity to guard against a monopoly under this kind of a transaction as under a domestic transaction?

Mr. STRAUSS. Undoubtedly.

Mr. WINGO. Why should we say to any gentlemen, "you can exploit Europe at your sweet will, but we will not permit that to be done by corporations in the United States." They can commit a crime, provided part of their transaction extends beyonds the seas.

The effect would be the same upon the American wheat producer, would it not?

The CHAIRMAN. I am afraid we are getting a lot of stuff in the record that really has no connection with this bill.

Mr. WINGO. I beg the chairman's pardon. This bill simply gives Federal incorporation to institutions already organized.

There might be other corporations organized, and under this bill you are taking off the bridle. I am in sympathy with the purpose of the bill, but I do not want its object defeated by putting in the bill that which will arouse the resentment and suspicion of the producers of American wheat and cotton, and the small manufacturers of America that must go out and fight for the markets of South America and the whole world.

Mr. KING. I think the producers of this country are more vitally interested in this legislation and do not know it.

Mr. WINGO. There is no doubt about it. That is the crux of the whole thing. That is going to determine the majority vote on the floor.

The CHAIRMAN. They would like to see a lot of restrictions taken off, judging from the letters I have received.

Mr. WINGO. The producer or small manufacturer wants to have the language of that so it will protect them against a monopoly.

Mr. HARRISON. We can settle that when we come to the bill.

Mr. WINGO. We are on the bill now.

The CHAIRMAN. I asked Mr. Strauss to come here largely to talk to us on the general subject, perhaps, of foreign exchange and its connection with this bill, on the theory that foreign exchange is something very few people understand, and we will have questions asked us on the floor of the House about it, and the bill has a connection with foreign exchange, of course. We are getting letters; I am, at least, asking the Government to stabilize foreign exchange.

Mr. WINGO. I was proceeding upon the theory that all the gentlemen recognize the conditions exist, and the question was, would this bill do what we all want and do it in the way we want?

Mr. PHELAN. On page 7 you have a provision beginning with line 14, which says:

A majority of the shares of the capital stock of any such corporation shall be held and owned by citizens of the United States—

And so on. Do you intend by that to require that the ownership of a majority of the stock shall always be held by United States citizens, corporations, etc., or simply for organization purposes?

Mr. STRAUSS. Always.

Mr. PHELAN. If that is so, can you maintain that unless there is some provision as to the transfer of stock? In other words, suppose a corporation comes within your provisions of the start and afterwards individual stockholders want to sell their stock, is there anything that can be done to prevent them from selling their stock in such a way that foreigners may get control of the corporation?

Mr. STRAUSS. If they did, I assume the corporation would be liable to be wound up. Is that correct, Mr. Harrison? If they do not comply with the provisions of this act, if they fail to comply by permitting more than one-fourth of the stock to be held by foreign owners, I presume the corporation would be liable to be wound up.

Mr. PHELAN. Except here is your difficulty, as you will observe, on that plan. You are penalizing the corporation for what some of its stockholders may do without giving the corporation any power over those stockholders as to what they shall do with their stock.

Mr. STRAUSS. It is a matter of practical detail. I have not given any consideration as to how this would be made effective, but I presume a corporation under this act would provide in its by-laws that when any stock is transferred there must be attached to it an affidavit as to the new ownership. They would have to protect themselves in some such way. You may ask what is to prevent stock being transferred into the name of a citizen, but actually owned by a foreigner? Well, the affidavit required by such by-laws must state that the actual owner is an American citizen. If the affidavit is false the corporation would be subject to the penalties under this statute and liable to be wound up. They would be victimized by one of their own shareholders.

Mr. PHELAN. I am not asking this in a spirit of antagonism, but asking for the purpose of changing or amending if deemed desirable. Here is the situation. They come within the requirements of the law when organized?

Mr. STRAUSS. Yes.

Mr. PHELAN. Now, one of their stockholders can prevaricate, if he desires to do so, without intending any wrong, simply because he wants to get rid of his stock.

Mr. STRAUSS. You mean a sale in the market; but I think each corporation would have to protect itself by an appropriate provision in its by-laws which would compel a disclosure of the nationality of any new owner.

Mr. PHELAN. More than that; they would have to have a provision whereby they could prevent the sale.

Mr. HARRISON. Any stock of the corporation must be transferred on the books of the corporation.

Mr. PHELAN. But can the corporation prevent me from selling my stock to anybody I want to sell to?

Mr. HARRISON. They can, if it is put in the certificate of stock.

Mr. PHELAN. In starting in, at the beginning?

Mr. HARRISON. Surely.

Mr. PHELAN. Then they would be in the position where they would let some people sell to foreigners and not others.

Mr. STRAUSS. The limitation would apply whenever one-fourth, or just one-quarter of their shares——

Mr. PHELAN (interposing). The question is whether or not that ought to be provided in law, or whether we ought to let it go to the individual corporation.

(Whereupon, at 12.15 p. m., recess was taken until Thursday, September 25, 1919, at 10.30 a. m.)

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DURYEA MANUFACTURING Co.,  
Bayonne, N. J., June 6, 1919.

Hon. WALTER E. EDGE,  
*Senators' Building, Washington, D. C.*

MY DEAR SENATOR: I hope you will be able to work out some scheme along lines of my memo. because we business men in the export trade need relief and no one seems to hit the right idea in any public announcements.

What we want and must have if we are to become big and great in world's trade is ability to develop the "other fellow's" proposition, lend him the money with which to do it, take his long-time bonds, place this investment among American banks, savings institutions, private investors, and capitalists, and compel the "other fellow," whether he is in South America, India, Belgium, France, etc., to spend the money thus received in buying his supplies in this country.

This is what England, Holland, and other European people did for the United States when we were growing, though they did not compel us to buy all our supplies from them, but when they went into South America, China, India, Africa, etc., and took charge of the development work, whether it was railroad, harbor work, etc., the supplies were bought in the country where the money came from, and that is one great reason why they did so much foreign trade.

Any shipping man will tell you about the triangle from, say, London to Brazil with coal and merchandise, back to New York with coffee and rubber, then back to London with food supplies. This sort of deal was going on all the time, and England benefited at every turn; so did Germany and so did Belgium, etc.

Now, if we establish the lines of steamers to South America Mr. Hurley is talking about and do not develop the other fellow's project, it won't be many months before these ships will be doing work for Europeans, and the ships will be operating at a loss. You watch and see it come true unless something real is done.

I have been in touch with export trade over 10 years. I am in it now, and have no ax to grind other than make the "other fellow" buy my American-made goods, and it's not a question of price so much as it is finance. Make the "other fellow" owe you money and you have a hold on him; if you don't do this, he will drift to the money center. He always did and he always will. You would do it and so would anyone else. Hence, organize big; be big enough to take over any enterprise. Go into Brazil and build and finance 1,000 miles of railway if they want it done, or 10,000 miles or 50,000. Be big and see big and then we will be big. No little \$2,000,000 financial bank or any bank dealing exclusively in foreign exchange can touch this thing. The United States Government can not do it because the scheme must make money and live. No enterprise that works at a loss can hope to cover the ground. The people do not want a governmental enterprise; they do not want red tape; they want big movement, operating in big things and in a quick way and at a profit.

Yours, truly,

GEO. B. HANFORD.

## THE STANDARD TEXTILE PRODUCTS CO.,

*Athenia, N. J., May 26, 1919.*

HON. WALTER E. EDGE,

*United States Senate, Washington, D. C.*

SIR: Doubtless you have been fully apprised of the proceedings and have received a copy of the final declaration of the Sixth National Foreign Trade Convention held in Chicago during April of this year.

As manufacturers with large interests in New Jersey, we have for many years past enjoyed a fair amount of foreign patronage and have consistently used our best endeavors to increase same for our own benefit and that of the country as a whole.

We realize, as most manufacturers now do, that this country should have, and under proper conditions can have, a much larger share of the world's business than has heretofore been enjoyed.

May we commend to your attention a careful study of the suggestions of the Foreign Trade Council and feel that we have your interest and assistance in carrying out the suggestions which they have presented? Your efforts, together with those of Senators from other States, we are confident, will place this country in a preferred position with respect to its ability to command and care for a largely increased share in foreign commerce.

Thanking you in advance for your interest, we beg to remain,

Respectfully, yours,

THE STANDARD TEXTILE PRODUCTS CO.  
W. E. THATCHER, *Assistant Treasurer.*

## THE ESTERBROOK STEEL PEN MANUFACTURING CO.,

*Camden, N. J., July 21, 1919.*

HON. WALTER E. EDGE,

*United States Senate, Washington, D. C.*

DEAR SIR: If the finance bill introduced by you into the Senate is in such shape that the Public Printer can send it out, the writer would be very glad to have a copy.

Our company is much interested in foreign trade, and the terrific depreciation in the value of foreign exchange adds a serious burden to our costs. Anything the Government therefore can do to assist us will be of great value.

Respectfully, yours,

THE ESTERBROOK STEEL PEN MANUFACTURING CO.  
E. S. WOOD, *Treasurer.*

## NATIONAL ASSOCIATION OF CREDIT MEN,

*New York, August 19, 1919.*

HON. WALTER E. EDGE,

*United States Senate, Washington, D. C.*

MY DEAR SENATOR EDGE: Acknowledging your very kind note of August 14, would advise that on a recent date I sent Hon. George P. McLean, chairman of the Senate Banking and Currency Committee, a strong letter in support of your bill, and I suspect similar letters will be sent to Senator McLean by our committees on foreign credits and banking and currency.

I am very thoroughly convinced in my own mind that you propose a measure of great value to our international trade relations, and I wish its successful and quick passage through the Senate and House.

Sincerely, yours,

J. H. TREGOE, *Secretary-Treasurer.*

## THE MERCHANTS NATIONAL BANK,

*New York, August 20, 1919.*

Senator WALTER EDGE,

*Senate Building, Washington, D. C.*

MY DEAR SENATOR: In my opinion the exchange situation is of the utmost importance if we are to continue and maintain our large export business brought about by the war. If sterling and the other exchanges continue to decline, our

exports to Europe must stop, with the possible exception of the necessary food-stuffs.

I wish you success with your measure and trust it will have the very prompt consideration of Congress.

Yours, sincerely,

R. E. JONES, *President.*

NATIONAL ASSOCIATION FOR THE  
PROTECTION OF AMERICAN RIGHTS IN MEXICO,  
*Washington, D. C., June 26, 1919.*

HON. WALTER E. EDGE,  
*United States Senate, Washington, D. C.*

DEAR SIR: Europe is our heavy debtor and will become a greater one before returns begin to this country. The cancellation of that indebtedness will depend largely on the ability to educate the American investor into investment in foreign securities, but unless those foreign securities are to have some degree of protection it will be a difficult matter to secure American investment.

Yours, very truly,

C. H. BOYNTON.

AMERICAN MANUFACTURERS EXPORT ASSOCIATION,  
*New York, N. Y., July 29, 1919.*

Senator WALTER E. EDGE,  
*Senate Office Building, Washington, D. C.*

DEAR SENATOR EDGE: I feel constrained to write you regarding your bill now in the Senate to provide for a foreign finance corporation as a means of organizing under Government supervision the credit resources of this country, so urgent for the financing of European industries.

The question is not whether this country should help to finance the industries of Europe; that is self-evident. The only thing to be decided is the wisest and sanest method by which this can be accomplished.

If Europe's industries languish for lack of financing, we shall, as a Nation, lose our best customer, and what is worse, we shall witness a period of unrest and disorder more serious than the world has ever known.

To finance Europe now is to take out insurance for our own prosperity and tranquillity.

It is therefore with great satisfaction that manufacturers of the country, and particularly the exporting manufacturers who are brought into constant contact with the European situation, have watched the progress of the plans put forward to meet this problem.

The bill introduced by you in the Senate providing for a foreign finance corporation offers the necessary Government supervision for the organization of our national credit resources. It is evident that the bankers of this country realize their responsibility. Mr. Warburg, Mr. Alexander, and other well-known bankers have made this fact clear only recently.

The manufacturer is not in a position to pass upon details, but only on the necessity. His word to bankers and legislators alike is "Hurry."

Manufacturers exporting to Europe are discovering that there are immediate needs which they are supplying to those who now have funds and are able to find others who can buy from them at a profit. The manufacturer realizes, however, that the cream is being rapidly skimmed and that behind the present flood of orders there is no substantial ability to keep buying.

The critical period is at hand when the artificial postwar stimulus will cease and Europe will stop buying even necessities.

The need, therefore, is urgent for immediate action by Congress and by bankers to tide over this critical period until Europe can get going once more.

There is need for as great and as liberal education on the proposed issues of the new corporation as there was for the Liberty and Victory loans. This is not the affair of the banker alone or the exporter alone, but of the entire American public. The workman as well as the employer must safeguard his future. He can't make goods to sell to a Europe which won't buy because it can't buy. The business man will take these issues because he knows how vital it is to his business. The workman will buy because he has learned the saving value of bond investments.

The business man of America asks the following from Congress and our bankers:

1. Foreign securities must be bought intelligently by a central agency representing the credit resources of the country, in order that European industries may be encouraged.
2. Investments must have the protection of our own Government and of the foreign Government where the money is to be used.
3. The plan must be put under way at once.

Very truly, yours,

GEO. ED. SMITH,  
*President.*

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WAR FINANCE CORPORATION,  
Washington, D. C., July 28, 1919.

HON. WALTER E. EDGE,  
*United States Senate, Washington, D. C.*

MY DEAR SENATOR: I have read your Senate bill No. 2472 to amend the Federal Reserve act authorizing banking corporations to do foreign banking business, and the provisions of the bill appear to me advisable and extremely timely.

With the changed position of our country in foreign trade, and consequently in foreign banking, new agencies must be devised to meet the situation.

It appears to me that the proposed incorporation of banks under a Federal charter and under the supervision of the Federal Reserve Board is especially appropriate to the function of financing our foreign commerce which is, and will continue to be, so essentially a matter of national interest.

Yours, very truly,

EUGENE MEYER, JR.

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THE AMERICAN EXCHANGE NATIONAL BANK,  
New York, N. Y., September 10, 1919.

HON. ERNEST R. ACKERMAN,  
*House of Representatives, Washington, D. C.*

DEAR MR. ACKERMAN: I would advise that you have my full permission to use my letter of the 8th instant, in relation to bill H. R. 8033, copy of which was inclosed in your favor of the 9th instant, that the Edge bill passed the Senate. This is, without doubt or argument, a constructive step and one in the right direction.

With the financial condition of our country and our tremendous gold reserve, and the force and backbone which our industries have, looking at them from a financial point of view, no stone should be left unturned to make it possible for them to get a share of the world trade.

We have wonderful opportunities in this country to-day, and to have our legislatures move to enable us to take advantage of those opportunities means everything.

Wishing you every success in the furthering of the bill in question, I beg to remain,

Sincerely, yours,

LEWIS L. CLARKE, *President.*

P. S.—Excerpt from letter received this morning from one of our valued clients: "Aside from Mr. Vanderlip's book on European conditions, I do not recall any recent publication from a responsible practical source which has so correctly analyzed the present complicated financial, commercial, and industrial situation." Letter No. 24 inclosed, knowing you will be interested.

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THE AMERICAN EXCHANGE NATIONAL BANK,  
New York, N. Y., September 8, 1919.

HON. ERNEST R. ACKERMAN, M. C.,  
*Washington, D. C.*

MY DEAR MR. ACKERMAN: I have just returned to my desk after an extended absence, and your favor of the 4th instant inclosing copy of bill H. R. 8033 has been placed before me. I am very appreciative of your courtesy in think-

ing of me in this connection, and anticipate at the earliest moment finding pleasure and information in giving the bill referred to a careful reading.

There seems to be no question whatever as to the necessity for expediency in making some character of arrangement that will enable American industry to met the requirements of foreign trade on a basis satisfactory to all parties interested, and I am glad to know that you are concerning yourself in such measures.

Sincerely, yours,

LEWIS L. CLARKE, *President.*

NATIONAL NEWARK AND ESSEX BANKING CO.,  
Newark, N. J., September 6, 1919.

HON. ERNEST R. ACKERMAN,  
*House of Representatives, Washington, D. C.*

MY DEAR CONGRESSMAN: We have your favor of the 4th inclosing copy of House bill 8033 and note what you say concerning it. I have taken time to read the bill and in general it commends itself.

Anything that the Government can do to facilitate the development of this country's foreign business we believe should be done, always providing it be done in a thoroughly business-like manner.

The conduct of management of the Federal reserve banks under the Federal reserve act has been so successful that any additional powers that may be granted through legislation broadening the scope and increasing the influences of these banks, it seems to us, would work to the benefit of the country.

Thanking you for sending us this bill, I am

Sincerely, yours,

SPENCER S. MARSH, *Cashier.*

MOODY'S INVESTORS SERVICE,  
NEW YORK, N. Y., September 6, 1919.

HON. ERNEST R. ACKERMAN,  
*House of Representatives, Washington, D. C.*

DEAR MR. ACKERMAN. I wish to thank you for sending me the copy of the bill you have introduced in the House of Representatives providing for the extension of foreign credits and foreign trade. I have already strongly expressed my views in favor of the so-called Edge bill, which was introduced in the Senate by Senator Edge, and I think that your bill entirely coincides with the other. I believe that if this proposition can be carried through promptly it will be of vast benefit to all and will certainly greatly relieve the present distressing situation.

The main point, however, is to get something immediately started along this line. Many plans have been tentatively discussed for months past, but as far as I can see little of a really practical nature has been accomplished yet in working out the difficult problems of the European credit situation. The more promptly something is actually done, the better it will be for the country.

With kind regards, I remain,

Very truly, yours,

JOHN MOODY, *President.*

NATIONAL BANK OF COMMERCE,  
NEW YORK, N. Y., September 6, 1919.

HON. ERNEST R. ACKERMAN,  
*House of Representatives, Washington, D. C.*

MY DEAR MR. ACKERMAN: Your letter of September 4th is at hand and I am very glad to avail myself of the opportunity to give you my impressions of the bill which you inclose.

I have carefully examined this proposed measure and regard it as very timely. Europe is dependent on us for food and materials, and the enactment of this bill will point the way to a satisfactory method of organization for the financing of our exports on a sound basis. I hope to see the bill speedily enacted into law.

Yours, very truly,

GUY EMERSON, *Vice President.*



55 WALL STREET,  
New York, N. Y., September 18, 1919.

HON. ERNEST R. ACKERMAN,  
*House of Representatives, Washington, D. C.*

MY DEAR MR. ACKERMAN: Allow me to thank you for your letter of the 9th instant and for the kind expressions contained therein.

I have just returned from the convention of the West Virginia Bankers' Association held at White Sulphur Springs. I took with me the copy of the bill introduced by you and read it with much interest. I have no criticism to make of this bill and it appears to have been very well drawn.

If this act is passed by the House and corporations are organized thereunder, it would seem that they would be instrumental in adjusting some of our financial problems. This country is deeply interested in the exchange situation. The low rates of exchange reflect, in a large measure, the enormous amounts of paper which have been issued and without a proper gold basis. The more goods purchased in this market and the exchange drawn against the countries to which such goods are shipped, means an accumulation of credit balances abroad which we do not need.

We are now turning out goods in practically the same measure as during the war. If this is to continue, we will need an export market. On the other hand, if purchases cease, we will have a slowing down in industry here and take the first steps in the process of liquidation.

When in West Virginia certain bankers in discussing the Edge bill took exception to the liability clause, and felt that banks would be slow to take interest in corporations if a double liability were attached, as, in view of the fact that shareholders of each bank already face such liability.

With best regards,  
Cordially, yours,

VOORHEES.

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IRVING NATIONAL BANK,  
New York, N. Y., September 17, 1919.

HON. ERNEST R. ACKERMAN,  
*House of Representatives, Washington, D. C.*

DEAR SIR: Upon returning from a month's vacation in the mountains, I find your very courteous letter of September 10 with a copy of the Edge bill.

I regret that I am late in expressing an opinion upon this bill, but am deeply interested in its working out. It seems to me that it clearly is the best thing that has been proposed. If, when the organizations contemplated in it get into operation, there can be developed the proper national spirit to back them up the result may be accomplished, otherwise it is going to be a long row.

Very truly, yours,

G. A. O'REILLY,  
*Foreign Trade Representative.*

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